

# **EXHIBIT T**

CRAIG-HALLUM  
CAPITAL GROUP LLCFebruary 16, 2022  
Institutional Research

## QUICK NOTE

## Inotiv, Inc.

BUY

(NOTV - \$28.32)

Price Target: \$64

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## Virtual NDR With Inotiv Reinforces Our Thesis. We Encourage Investors To Take Advantage Of The Current Pullback. Reiterating BUY Rating.

*Inotiv is a contract research organization (CRO) focused on providing pre-clinical services.*

### OUR CALL

With shares of Inotiv down by nearly 30% in a week, one of the biggest questions we have received from investors is, “Why is the stock down?” Having hosted a virtual NDR with the company on Monday, we remain surprised by the price action and note that there was no change in management’s commentary from what we have heard previously. In fact, the message to us couldn’t be simpler: both parts of the business are performing well. On the discovery and safety assessment (DSA) side, demand remains robust and some business has actually been turned away due to lack of capacity. This implies that Q1 backlog (up 28.5% Q/Q) could have been even higher if Inotiv was willing to book business for capacity that’s still being built. Meanwhile (on the RMS side), our view that non-human primate (NHP) prices represent a significant source of potential upside remains unchanged. Ultimately, we believe it is simply a matter of time before contracts struck at lower prices begin to renew at higher prices, providing upside to revenue and gross profit estimates. We continue to view NOTV as a top pick for 2022 and are reiterating our Buy rating and \$64 price target.

### KEY POINTS

#### Breaking Down the NHP Opportunity

Following our last note, we have received numerous questions related to NHP (i.e. monkey) pricing. As previously noted, our model currently includes minimal benefit from higher prices. While NHP prices in the spot market have reached ~\$20k, many of Inotiv/Envigo’s contracts were struck at last year’s price levels (which are less than half this amount). Therefore, we have taken a conservative approach with our estimates, which assume NHPs sold in FY22 are sold at prices comparable to last year’s levels. Any contracts that roll off and are renewed at the ~\$20k level would therefore create upside to our revenue estimates. Since NHPs are purchased from external suppliers, we believe the gross margin percentage on these sales (over the long-term) is likely to settle out at historical levels.

#### Multiple Levers to Drive Margin Improvement

In our view, margin improvement is one facet of the Inotiv story that has become clearer in recent weeks. In addition to higher volume, we see several key levers to drive margin improvement, including:

- **Site Consolidation** – As mentioned in our Top Picks note, Envigo is currently building out its facility in Denver, PA, which should allow two other facilities to be closed. Additionally, Inotiv is planning to consolidate RSI’s rabbit breeding business (recently acquired) into existing facilities, which should result in additional cost savings. This business was generating ~\$2.5M in revenue, but carried ~50% net margins at the time it was acquired (see 2/11/2022 8-K).
- **Envigo Models** – While Inotiv was purchasing some animal models from Envigo prior to the acquisition, we believe they represented a small percentage of the models being used. Inotiv is now in the process of switching to Envigo for more of its studies, which should drive margin improvement.
- **Feed Mill** – Inotiv’s acquisition of Envigo included a feed mill that was not being fully utilized. Between feed demand related to Envigo, as well as demand related to the OBRC business (recently acquired), we believe Inotiv is in a position to dramatically increase utilization of this asset, driving additional margin improvement.

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## Pharma/Biotech Funding Environment Not Impacting Business

As most investors are aware, pharma/biotech stocks have experienced significant declines in recent quarters, particularly those of smaller companies. While this has created a more difficult environment for pharma/biotech funding, we didn't see any impact from this in Inotiv's results or backlog. During our NDR, management noted that the company's top 20 customers are primarily concerned about capacity (not funding) and do not have a near-term need to raise capital. We also note that where companies like Medpace (MEDP, not covered) are focused on the clinical portion of the CRO market, Inotiv is focused on the pre-clinical portion (where studies are significantly less expensive). Overall, we view the funding environment as a non-issue for Inotiv, but will continue to monitor this as a potential risk factor.

## STOCK OPPORTUNITY

In our view, Inotiv represents a compelling rollup story in an attractive and growing market (pre-clinical CROs). Our price target of \$64 is based upon our DCF model on page 4, which assumes ~8% market growth, steady share gains for Inotiv, and zero contribution from future acquisitions. This target equates to a CY22 EV/Sales multiple of 3.2x, which is roughly in-line with the average for other CROs (see page 5). Given Inotiv's track record of extracting synergies from acquisitions, further M&A is one factor that could provide upside to our target.

## RISKS

We believe an investment in Inotiv involves the following risks:

- **Financing Risk**

Inotiv filed an S-1 on December 23<sup>rd</sup> that may be used to issue up to an additional \$100M in stock.

- **Acquisition Risk**

Growth through acquisition represents a core part of Inotiv's strategy. In recent quarters, the company has made frequent acquisitions. If Inotiv fails to successfully integrate an acquisition, its stock price may be adversely affected. Furthermore, if the company is unable to find additional acquisition targets, its ability to expand its service offerings and grow revenue may be limited.

- **Studies Performed with Live Animals**

Like other Contract Research Organizations (CROs), Inotiv utilizes live animals to test the safety and effectiveness of experimental drugs. While this has been a common practice within the industry for several decades, a shift in attitudes or regulation regarding animal rights and the use of them to perform studies could have an adverse effect on Inotiv's ability to conduct business.

- **Material Weakness in Internal Controls**

On the Q4'21 earnings call, Inotiv disclosed a restatement related to tax attributes for the Bolder BioPATH acquisition. The restatement resulted in a \$4.9M increase in Q3 net income. Related to this, the company also disclosed a material weakness in internal controls, which it is now working to remediate.

*Note: The above list does not purport to be a complete list of risk factors. See the company's 10-K filing for other investment risks.*



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Inotiv, Inc.																	
Fiscal Year Ends September																	
Income Statement (\$ thousands)	Fiscal 2019A	Dec Q1-20A	Mar Q2-20A	June Q3-20A	Sep Q4-20A	Fiscal 2020A	Dec Q1-21A	Mar Q2-21A	June Q3-21A*	Sep Q4-21A**	Fiscal 2021A	Dec Q1-22A	Mar Q2-22E	June Q3-22E	Sep Q4-22E	Fiscal 2022E	Fiscal 2023E
Revenue breakdown:																	
Service	39,048	12,142	15,191	14,852	14,992	57,177	17,032	17,902	21,924	28,974	85,832	38,176	38,668	39,244	47,517	163,606	182,762
Product	4,568	776	821	913	782	3,292	853	849	968	1,102	3,772	46,035	82,450	88,700	95,200	312,385	404,668
Total Revenue	43,616	12,918	16,012	15,765	15,774	60,469	17,885	18,751	22,892	30,076	89,604	84,211	121,118	127,944	142,717	475,991	587,430
Cost of sales:																	
Cost of service revenue	27,637	8,911	10,207	10,113	10,655	39,886	11,597	11,949	14,701	19,058	57,305	24,209	24,361	23,939	28,510	101,019	108,076
Cost of product revenue	2,781	530	612	588	496	2,226	411	522	545	710	2,188	40,677	72,556	71,581	69,877	254,691	295,385
Total cost of sales	30,418	9,441	10,819	10,701	11,151	42,112	12,008	12,471	15,246	19,768	59,493	64,886	96,917	95,520	98,387	355,710	403,461
GAAP Gross Profit	13,198	3,477	5,193	5,064	4,623	18,357	5,877	6,280	7,646	10,308	30,111	19,325	24,201	32,424	44,330	120,281	183,969
Operating expenses:																	
Selling	2,914	882	1,447	692	701	3,722	625	1,175	950	1,174	3,924	2,738	2,763	2,788	2,813	11,102	11,502
Research and development	627	162	162	105	521	950	196	203	107	115	621	0	0	0	0	0	0
General and administrative	9,811	3,453	3,779	4,624	4,772	16,628	5,042	5,423	7,813	11,791	30,069	13,252	19,252	19,452	19,652	71,608	84,608
Start-up	0	0	0	120	0	120	0	0	479	636	1,115	0	0	0	0	0	0
Amortization of intangible assets												3,396	3,396	3,396	3,396	13,584	13,584
Other operating expense												33,580	8,000	0	0	41,580	0
GAAP Operating Expenses	13,352	4,497	5,388	5,541	5,994	21,420	5,863	6,801	9,349	13,716	35,729	52,966	33,411	25,636	25,861	137,874	109,694
GAAP Operating Income	(154)	(1,020)	(195)	(477)	(1,371)	(3,063)	14	(521)	(1,703)	(3,408)	(5,618)	(33,641)	(9,210)	6,788	18,469	(17,593)	74,275
Interest and other income:																	
Interest expense	(642)	(311)	(392)	(382)	(405)	(1,490)	(347)	(366)	(449)	(520)	(1,682)	(4,828)	(6,382)	(6,382)	(6,382)	(23,973)	(25,526)
Other income	10	2	10	1	2	15	0	179	1	13,240	13,420	(57,727)	0	0	0	(57,727)	0
Total Interest and Other Income (Expense)	(632)	(309)	(382)	(381)	(403)	(1,475)	(347)	(187)	(448)	12,720	11,738	(62,555)	(6,382)	(6,382)	(6,382)	(81,700)	(25,526)
GAAP Pre-tax Income	(786)	(1,329)	(577)	(858)	(1,774)	(4,538)	(333)	(708)	(2,151)	9,312	6,120	(96,196)	(15,591)	407	12,088	(99,293)	48,749
Income tax expense	4	97	11	21	18	147	33	15	(4,754)	(70)	(4,776)	(12,785)	100	100	100	(12,485)	4,875
GAAP Net Income	(790)	(1,426)	(588)	(879)	(1,792)	(4,685)	(366)	(723)	2,603	9,382	10,896	(83,411)	(15,691)	307	11,988	(86,808)	43,874
Net income attrib. to noncontrolling interests												(364)	(350)	(350)	(350)	(1,414)	(1,400)
GAAP Net Income Attrib. to Common												(83,047)	(15,341)	657	12,338	(85,394)	45,274
GAAP EPS	(\$0.08)	(\$0.13)	(\$0.05)	(\$0.08)	(\$0.16)	(\$0.43)	(\$0.03)	(\$0.06)	\$0.18	\$0.06	\$0.19	(\$3.93)	(\$0.64)	\$0.03	\$0.51	(\$3.64)	\$1.83
Weighted average shares outstanding, diluted	10,383	10,669	10,843	10,910	10,976	10,851	11,016	11,151	14,656	16,473	13,865	21,124	24,124	24,274	24,424	23,487	24,799
Adjusted EBITDA	2,834	496	1,109	894	55	2,554	1,296	1,111	2,214	4,335	9,318	10,122	16,030	17,478	26,108	69,738	105,333
*Adjusted to reflect restatements																	
**Numerator used to calculate GAAP EPS subtracts the gain on fair value remeasurement of convertible notes																	
% Revenue Analysis																	
Service gross margin	29.2%	26.6%	32.8%	31.9%	28.9%	30.2%	31.9%	33.3%	32.9%	34.2%	33.2%	36.6%	37.0%	39.0%	40.0%	38.3%	40.9%
Product gross margin	39.1%	31.7%	25.5%	35.6%	36.6%	32.4%	51.8%	38.5%	43.7%	35.6%	42.0%	11.6%	12.0%	19.3%	26.6%	18.5%	27.0%
GAAP Gross Margin	30.3%	26.9%	32.4%	32.1%	29.3%	30.4%	32.9%	33.5%	33.4%	34.3%	33.6%	22.9%	20.0%	25.3%	31.1%	25.3%	31.3%
Selling	6.7%	6.8%	9.0%	4.4%	4.4%	6.2%	3.5%	6.3%	4.1%	3.9%	4.4%	3.3%	2.3%	2.2%	2.0%	2.3%	2.0%
Research and development	1.4%	1.3%	1.0%	0.7%	3.3%	1.6%	1.1%	1.1%	0.5%	0.4%	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
General and administrative	22.5%	26.7%	23.6%	29.3%	30.3%	27.5%	28.2%	28.9%	34.1%	39.2%	33.6%	15.7%	15.9%	15.2%	13.8%	15.0%	14.4%
Start-up	0.0%	0.0%	0.0%	0.8%	0.0%	0.2%	0.0%	0.0%	2.1%	2.1%	1.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
GAAP Operating Expenses	30.6%	34.8%	33.6%	35.1%	38.0%	35.4%	32.8%	36.3%	40.8%	45.6%	39.9%	62.9%	27.6%	20.0%	18.1%	29.0%	18.7%
GAAP Operating Margin	-0.4%	-7.9%	-1.2%	-3.0%	-8.7%	-5.1%	0.1%	-2.8%	-7.4%	-11.3%	-6.3%	-39.9%	-7.6%	5.3%	12.9%	-3.7%	12.6%
Tax rate	0.5%	7.3%	1.9%	2.4%	1.0%	3.2%	9.9%	2.1%	-221.0%	0.8%	78.0%	-13.3%	0.6%	-24.6%	-0.8%	-12.6%	-10.0%
GAAP Net Margin	-1.8%	-11.0%	-3.7%	-5.6%	-11.4%	-7.7%	-2.0%	-3.9%	11.4%	31.2%	12.2%	-99.1%	-13.0%	0.2%	8.4%	-18.2%	7.5%
Stock option expense	0.6%	0.8%	0.7%	1.1%	1.0%	0.9%	1.0%	1.5%	2.5%	2.5%	2.0%	28.4%	0.8%	0.8%	0.7%	5.6%	0.8%
Adjusted EBITDA Margin	6.5%	3.8%	6.9%	5.7%	0.3%	4.2%	7.2%	5.9%	9.7%	14.4%	10.4%	12.0%	13.2%	13.7%	18.3%	14.7%	17.9%
% Growth Analysis (Yr/Yr)																	
Product revenue	74.0%	57.0%	86.8%	53.3%	11.1%	46.4%	40.3%	17.8%	47.6%	93.3%	50.1%	124.1%	116.0%	79.0%	64.0%	90.6%	11.7%
Service revenue	16.9%	-12.8%	-32.3%	-22.1%	-39.5%	-27.9%	9.9%	3.4%	6.0%	40.9%	14.6%	5296.8%	9611.4%	9063.2%	8538.8%	8181.7%	29.5%
Total Revenue	65.6%	49.8%	71.4%	45.2%	6.7%	38.6%	38.5%	17.1%	45.2%	90.7%	48.2%	370.8%	545.9%	458.9%	374.5%	431.2%	23.4%
GAAP Gross Profit	62.6%	43.7%	102.8%	61.8%	-9.2%	39.1%	69.0%	20.9%	51.0%	123.0%	64.0%	228.8%	285.4%	324.1%	330.1%	299.5%	52.9%
GAAP Operating Income	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
GAAP EPS from Continuing Operations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-84.8%	715.8%	N/A
Adjusted EBITDA	N/A	13.8%	315.4%	11.6%	-95.9%	-9.9%	161.3%	0.2%	147.7%	7781.8%	264.8%	681.0%	1342.8%	689.4%	502.3%	648.4%	51.0%



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Inotiv, Inc.  
Discounted Cash Flow Model

Estimates		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
(\$ thousands)											
Total Revenue		475,991	587,430	649,110	723,758	814,228	924,149	1,058,150	1,216,873	1,399,404	1,441,386
Operating Profit		(17,593)	74,275	94,121	112,183	130,276	152,485	179,886	212,953	244,896	216,208
Less: Cash taxes paid		0	11,141	19,765	23,558	27,358	32,022	37,776	44,720	51,428	49,728
Operating Profit After Tax		(17,593)	63,134	74,356	88,624	102,918	120,463	142,110	168,233	193,468	166,480
Depreciation and amortization		25,846	26,429	29,997	34,047	38,643	43,860	49,781	56,502	64,129	72,787
Capital expenditures		50,000	20,000	21,100	22,261	23,485	24,776	26,139	27,577	29,094	30,694
Net investments in working capital		38,639	11,144	6,168	7,465	9,047	10,992	13,400	15,872	18,253	4,198
FCF		(80,386)	58,419	77,085	92,946	109,030	128,554	152,351	181,285	210,250	204,375
PV FCF		(73,412)	48,722	58,712	64,651	69,259	74,576	80,714	87,710	92,899	82,468
Perpetual FCF											
Base FCF		204,375									
Weighted Avg. Cost of Capital (k)		9.5%									
Perpetual Growth Rate (g)		3.0%									
Base Year		2021									
Perpetual Start Year		2031									
Perpetual Value		3,238,558									
PV of Perpetual Growth Period		1,306,804									
Total FCF											
Present Value of FCF		1,893,103									
Intrinsic Value											
Cash		40,400									
Debt		335,600									
After-tax ESO Liability		18,479									
Value of Equity		1,579,424									
Shares Outstanding		24,800									
Intrinsic Value per Share		\$63.69									

Sensitivity Analysis					
Terminal Period Variables			FCF Growth		
Cost of Capital	2.5%		3.0%	3.5%	4.0%
	8.0%	\$84.58	\$92.08	\$101.24	\$112.69
	8.5%	\$74.86	\$80.85	\$88.04	\$96.83
	9.0%	\$66.67	\$71.54	\$77.28	\$84.18
	9.5%	\$59.69	\$63.69	\$68.35	\$73.87
	10.0%	\$53.66	\$56.99	\$60.83	\$65.31
	10.5%	\$48.41	\$51.21	\$54.41	\$58.09



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Contract Research Organizations (CROs)								CY22	CY23	CY22	CY23							
		Current	Mkt Cap.	EV	Net Cash	CY22 Sales	CY22	Sales	Sales	EBITDA	EBITDA	CY22	CY23	CY22	CY23	CY22	CY23	
Symbol	Company	Price	(\$ mil)	(\$ mil)	per Share	(\$ mil)	EPS	Growth	Growth	Margin	Margin	EV/S	EV/S	P/E	P/E	EV/EBITDA	EV/EBITDA	
CRL	Charles River Laboratories International, Inc.	\$312.63	\$15,777	\$18,730	(\$58.51)	\$3,957	\$11.62	12%	11%	26%	27%	4.7x	4.3x	26.9x	23.4x	18.3x	15.9x	
MEDP	Medpace Holdings, Inc.	\$138.87	\$4,991	\$4,673	\$8.85	\$1,301	\$5.55	14%	15%	21%	21%	3.6x	3.1x	25.0x	21.8x	17.2x	14.7x	
IQV	IQVIA Holdings Inc	\$228.64	\$43,679	\$54,600	(\$57.17)	\$14,905	\$10.14	7%	10%	22%	23%	3.7x	3.3x	22.6x	19.7x	16.4x	14.7x	
CSBR	Champions Oncology, Inc.	\$7.73	\$104	\$109	(\$0.35)	\$54	\$0.18	17%	N/A	6%	N/A	2.0x	N/A	42.3x	N/A	31.4x	N/A	
ICLR	ICON Plc	\$242.36	\$19,728	\$24,898	(\$63.52)	\$7,932	\$11.61	44%	8%	18%	18%	3.1x	2.9x	20.9x	18.0x	17.9x	16.1x	
SYNH	Syneos Health, Inc. Class A	\$82.17	\$8,520	\$11,602	(\$29.72)	\$5,706	\$5.14	9%	9%	15%	15%	2.0x	1.9x	16.0x	14.0x	13.5x	12.0x	
								Median	13%	10%	19%	21%	3.4x	3.1x	23.8x	19.7x	17.6x	14.7x
								Average	17%	11%	18%	21%	3.2x	3.1x	25.6x	19.4x	19.1x	14.7x

CURRENT VALUATION																	
NOTV	Inotiv, Inc.	\$28.32	\$702	\$998	(\$11.90)	\$530	\$0.26	240%	15%	16%	18%	1.9x	1.6x	N/A	14.5x	12.0x	9.2x

Source: FactSet and Craig-Hallum estimates



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## REQUIRED DISCLOSURES



Source: FactSet

### Ratings definitions:

**Buy** rated stocks generally have twelve month price targets that are more than 20% above the current price. **Hold** rated stocks generally have twelve month price targets near the current price. **Sell** rated stocks generally have no price target and we would sell the stock.

### Fundamental trend definitions:

**Improving** means growth rates of key business metrics are generally accelerating. **Stable** means growth rates of key business metrics are generally steady. **Mixed** means growth rates of some key business metrics are positive but others are negative. **Declining** means growth rates of key business metrics are generally decelerating.

### Ratings Distribution (12/31/2021)

Rating	% Of Companies Covered	% With Investment Banking Relationships
Buy	85%	29%
Hold	14%	16%
Sell	1%	0%
Total	100%	27%

Information about valuation methods and risks can be found in the “STOCK OPPORTUNITY” and “RISKS” sections, respectively, of this report.

CHLM makes a market in this security.

CHLM expects to receive and intends to seek compensation for investment banking services from the subject company in the next three months.

Analysts receive no direct compensation in connection with the firm’s investment banking business. Analysts may be eligible for bonus compensation based on the overall profitability of the firm, which takes into account revenues from all of the firm’s business, including investment banking.

### OTHER DISCLOSURES

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